

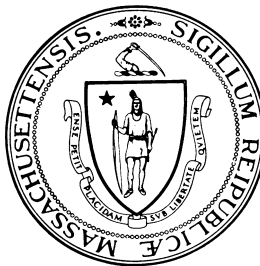
*Massachusetts Division of Health Care Finance and Policy*

# Uncompensated Care Pool PFY05 Annual Report

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May 2006

Amy M. Lischko, Commissioner



Mitt Romney, Governor  
Commonwealth of Massachusetts

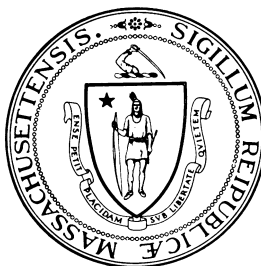
Timothy Murphy, Secretary  
Executive Office of Health and Human Services



# Uncompensated Care Pool PFY05 Annual Report

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**Uncompensated Care Pool PFY05 Annual Report**  
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# A Word About the Division

## **Satisfying the Need for Health Care Information**

The effectiveness of the health care system depends in part upon the availability of information. In order for this system to function properly, purchasers must have accurate and useful information about quality, pricing, supply and available alternatives. Providers need information on the productivity and efficiency of their business operations to develop strategies to improve the effectiveness of the services they deliver. State policy makers need to be advised of the present health care environment, as they consider where policy investigation or action may be appropriate.

As part of its health care information program, the Division publishes reports that focus on various health care policy and market issues.

**T**he Division of Health Care Finance and Policy collects, analyzes and disseminates information with the goal of improving the quality, efficiency and effectiveness of the health care delivery system in Massachusetts. In addition, the Division administers the Uncompensated Care Pool, a fund that makes payments to Massachusetts acute care hospitals and community health centers for services provided to uninsured and underinsured people.

## **Mission**

To improve the delivery and financing of health care by providing information, developing policies, and promoting efficiencies that benefit the people of Massachusetts. Agency goals:

- Assure the availability of relevant health care delivery system data to meet the needs of health care purchasers, providers, consumers and policy makers;
- Advise and inform decision makers in the development of effective health care policies;
- Develop health care pricing strategies that support the cost effective procurement of high quality services for public beneficiaries; and
- Improve access to health care for low-income uninsured and underinsured residents.

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# Introduction

This report looks at several components of Pool activity during the four quarters of PFY05:

*Impact of PFY05 Pool Reforms*, including analyses of the MassHealth eligibility screening reform, the Critical Access provision and the non-Massachusetts residency restriction;

*Pool Utilization Statistics*, including the number of individuals whose medical expenses were billed to the Pool, the volume of services provided to Pool users, and the costs to the Pool of that care;

*Pool User Demographics*, including the volume of services and costs by age, gender, family income, and family size;

*Services Billed to the Pool*, including details on the types of services received by Pool users, inpatient and outpatient volume and costs by age and gender, type of inpatient admission, top reasons for care, and average costs for inpatient discharges and outpatient visits; and

*Financing*, including the sources and uses of UCP funds, PFY05 hospital assessment and payment calculations, CHC payments, details about the UCP Demonstration Projects, and Pool settlement and audit information.

Pursuant to Chapter 149 of the Acts of 2004, the Division of Health Care Finance and Policy (the Division) submits quarterly and annual reports on the demographics and utilization patterns of individuals whose medical care is paid for by the Uncompensated Care Pool (UCP or 'the Pool'). This annual report covers Pool activity during Pool Fiscal Year 2005 (PFY05) from October 1, 2004, through September 30, 2005, and reports on the number of inpatient discharges and outpatient visits by age, income, and diagnostic category, as well as average charge per inpatient discharge and outpatient visit, and other statistics pertinent to monitoring the Pool.

Analyses of the utilization patterns of Pool users are based on claims for services billed to the Pool by each acute care hospital and community health center (CHC) in Massachusetts. Demographic information is taken from uncompensated care applications submitted to the Division and through MassHealth. Total charges and allowable uncompensated care costs are based on monthly reports submitted to the Division by each hospital and CHC. The most recently available data are used in all cases. See Data Notes for further information on the data used in these analyses.

## Uncompensated Care Pool Overview

The Uncompensated Care Pool pays for medically necessary services provided

by acute care hospitals and CHCs to eligible low-income uninsured and underinsured individuals. In addition, the Pool makes payments to hospitals for emergency services for uninsured individuals from whom the hospitals are unable to collect payment (these are known as emergency bad debt charges or ERBD). The Pool is always the payer of last resort on any claim. If an individual is uninsured, the Pool is the primary and only payer. However, if another public or private insurer is the primary payer, the Pool can be charged for the balance of charges for which the eligible individual is responsible. For more information about the Uncompensated Care Pool, please contact the Division at (617) 988-3100, or visit [www.mass.gov/dhcfp](http://www.mass.gov/dhcfp).

Beginning in PFY04, the UCP payment method for hospitals changed from a retrospective payment system to a prospective fixed-payment system. Under the new system, acute care hospitals are paid a pre-determined amount from the Pool each month based in part on historical uncompensated care costs. CHCs continue to be paid up to an annual cap that is set for total CHC expenditures. See the Financing section of this report for comprehensive financial information on the Pool.

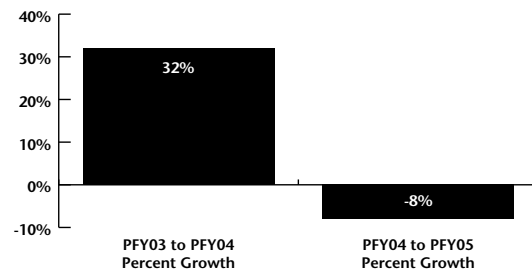
## The Impact of PFY05 Pool Reforms

### *MassHealth Eligibility Screening*

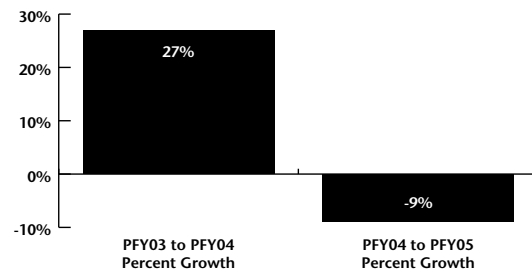
Since October 1, 2004, all applications processed through the MassHealth application system have been screened first for MassHealth eligibility before a UCP determination is made.

Beginning in January PFY05, the majority of monthly UCP determinations have been completed using the MassHealth application process. As anticipated, the transition to the Virtual Gateway application system has resulted in a significant reduction in UCP applications submitted to the Division; these applications declined

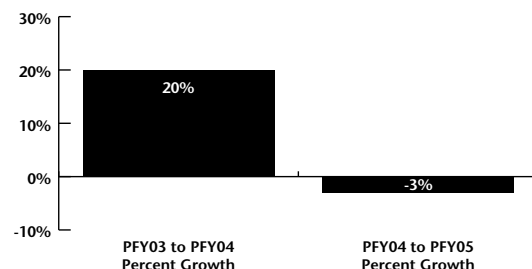
**Figure 1A: Percent Change in Pool User Outpatient Visits, PFY03–PFY05**



**Figure 1B: Percent Change in Pool User Inpatient Discharges, PFY03–PFY05**



**Figure 1C: Percent Change in Pool User CHC Visits, PFY03–PFY05**



92% during PFY05, an average decline of 19% per month. MassHealth UCP determinations increased by an average of 19% per month during this period. The Division continues to receive applications for the age 65 and over population, applications for a small number of confidential applicants, and Medical Hardship applications. As the Community Elder population is transitioned into the MassHealth application system, UCP determinations for the age 65 and over population will be completed using the MassHealth process.

One of the objectives of the MassHealth Eligibility Screening Reform is to enroll patients in the most appropriate program available, possibly resulting in reduced UCP utilization.

Figures 1A, 1B, and 1C show the significant decrease in UCP utilization growth rates between PFY03 and PFY05. For example, the growth rate for outpatient visits by Pool users dropped from 32% between PFY03 and PFY04 to -8% between PFY04 and PFY05. Similar declines were also evident for inpatient discharges and CHC visits.

### ***Critical Access***

The goal of the Critical Access policy reform is to shift primary care to CHCs to reduce primary care utilization in hospi-

tals. This policy reform has been in effect since January 2005. In order to measure the potential effects of this reform, the Division monitors UCP primary care service volume to assess any possible shifts in utilization from the hospital to the CHC setting. In PFY05 utilization decreased, hospital service volume decreased by 8%, and CHC service volume decreased 3% compared with PFY04. Volume decreased for all services, and noticeable shifts in the provision of hospital-based primary care have not yet been seen.

The Division monitors primary care at hospitals to develop a baseline measurement for the level of primary care provided at UCP facilities. This measurement will continue to be used to assess the ongoing effects of this reform.

### ***Non-Massachusetts Residents***

Both eligibility determinations and utilization for non-Massachusetts residents declined through PFY05. Applications for non-residents ceased, and UCP service volume for this population decreased by 48% in PFY05 compared with PFY04.

In addition, the Division is currently conducting financial and clinical audits of the Pool that will enable in-depth analyses of the PFY05 Pool reforms.



# Utilization

## Pool Utilization Statistics

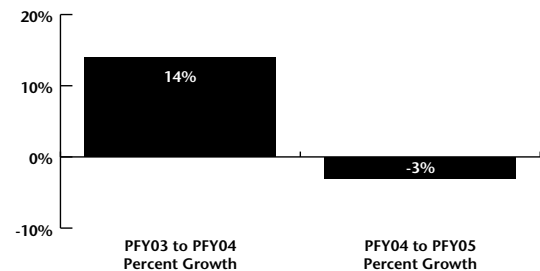
### *Number of Individuals Using the Pool*

In PFY05, medical expenses for an estimated 451,466 individuals were billed to the Pool, representing a 3% decrease in Pool users over PFY04. In PFY04, medical expenses for 466,244 individuals were billed to the Pool.

The Division estimates that 460,495 individuals will have used Pool services during PFY05, a 1% decrease over PFY04. The final number is expected to increase due to claims reporting delays.

Figure 2 outlines the decrease in the growth rate of UCP users over time. While

**Figure 2: Percent Change in Number of Pool Users, PFY03–PFY05**



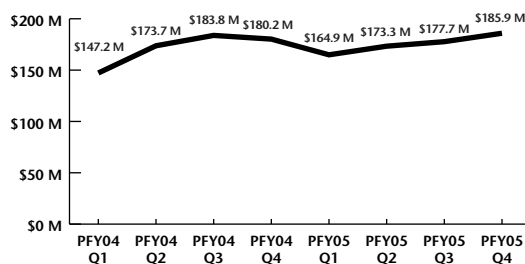
the number of users increased by 14% between PFY03 and PFY04, the growth rate for users was -3% between PFY04 and PFY05.

### *Allowable Costs Billed to the Pool*

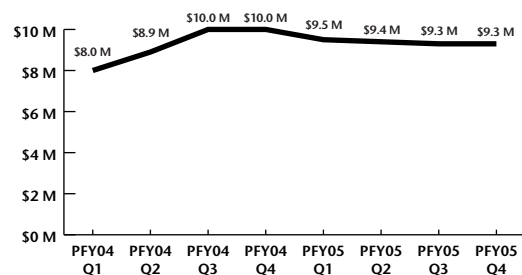
During PFY05, hospitals billed approximately \$701.8 million in allowable uncompensated care costs to the Pool, a 2.5% increase over the \$684.9 million billed to the Pool in PFY04 (see Figure 3A).<sup>1</sup>

**Figures 3A and 3B: Costs and Payments (in millions)**

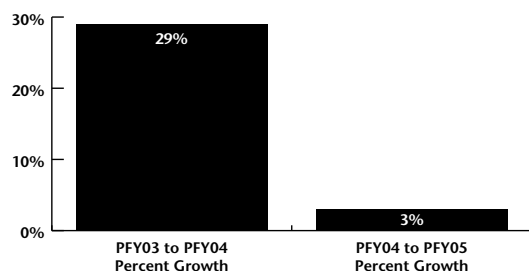
**Hospital Allowable Costs by Quarter, PFY04-PFY05**



**CHC Payments by Quarter, PFY04-PFY05**



**Figure 4: Growth in Hospital Uncompensated Care Charges, PFY03–PFY05**



CHCs received \$37.5 million during PFY05. This represents a 1.7% increase over the \$36.9 million in payments made to CHCs during PFY04 (see Figure 3B).

PFY05 data reflect a decrease in the overall growth rate of Pool charges (see Figure 4). While Pool charges between PFY03 and PFY04 increased by almost 30%, growth has slowed substantially to only 3% between PFY04 and PFY05.

#### ***Volume of Services Provided***

Table 1 summarizes the volume and costs of services billed to the Pool during PFY05. As in PFY04, inpatient discharges represented a small percentage (2%) of ser-

vice volume, but a large percentage (33%) of allowable uncompensated care costs. In contrast, hospital outpatient visits (including visits to hospital-licensed health centers) accounted for 78% of services provided and 62% of costs. The remaining 20% of services and 5% of costs were for services delivered at free-standing CHCs. The volume of services provided at CHCs has grown significantly between PFY04 and PFY05. In PFY04, CHC visits accounted for only 13% of Pool service volume; in PFY05 20% of Pool services were provided at CHCs.

Hospital services provided to individuals who had applied for and been determined eligible for uncompensated care accounted for 88% of all services and 85% of allowable hospital costs billed to the Pool. The remaining 12% of hospital services and 15% of allowable costs were for uncollectible emergency bad debt (ERBD) services. These percentages remained unchanged compared with PFY04.

#### **Pool User Demographics<sup>2</sup>**

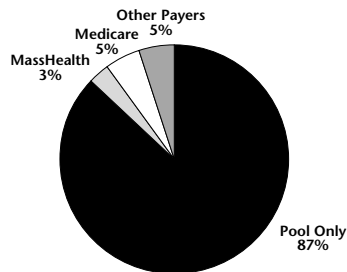
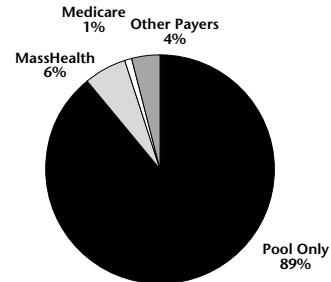
In PFY05, the demographic characteristics of Pool users remained essentially unchanged from the previous year, with the majority of Pool users being uninsured, single, childless adults ages 19 to 64, with very low incomes.

**Table 1: Total Service Volume and Costs by Hospital and CHC, PFY05**

	Service Volume	Percent of Total Volume	Allowable Costs to the Pool	Percent of Total Costs
Total Inpatient Discharges	43,416	2%	\$245,639,386	33%
Total Outpatient Visits*	1,661,316	78%	\$456,187,432	62%
Total Hospital Discharges/Visits**	1,704,732	80%	\$701,826,818	95%
CHC Visits	421,651	20%	\$37,533,002	5%
Total Hospital and CHC Volume	2,126,383	100%	\$739,359,820	100%

\* Outpatient Visits include visits to hospital outpatient departments and hospital-licensed community health centers.

\*\* 88% of service volume and 85% of costs were for regular uncompensated care services; 12% of service volume and 15% of costs were for emergency bad debt services (ERBD).

**Figures 5A and 5B: Primary Payer****Percent of Total Service Volume  
by Primary Payer, PFY05****Percent of Total Hospital Pool Costs  
by Primary Payer, PFY05*****Insurance Status of Pool Users***

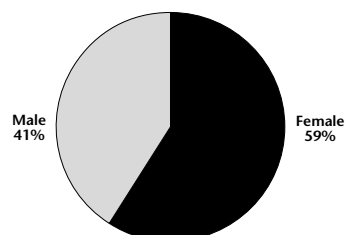
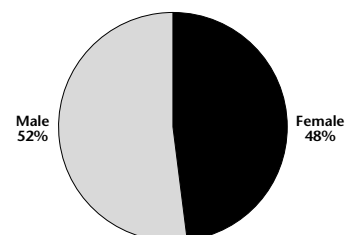
The vast majority of Pool users were uninsured; 87% of all medical services billed to the Pool and 89% of costs were for individuals who reported having no insurance, and for whom the Pool was the primary and only payer. As such, the Pool paid for all medically necessary services for these uninsured individuals. The remainder of the Pool user population was covered by other public or private insurance, but the Pool was billed for any uncovered services, copayments, and deductibles. For this population, MassHealth was the primary payer for 3% of service volume and 6% of

costs billed to the Pool; Medicare was the primary payer for 5% of services and 1% of costs, and other commercial and government programs were the primary payers for 5% of services and 4% of costs (see Figures 5A and 5B).

When Medicare or other payers were the primary payers, costs to the Pool represented a slightly lower percentage of total costs than of service volume.

***Utilization Patterns by Gender***

As in previous years, men in the Pool used fewer services than women (41% of services billed to the Pool were for men

**Figures 6A and 6B: Gender of Patient****Percent of Total Hospital Service Volume  
by Gender of Patient, PFY05****Percent of Total Hospital Costs  
by Gender of Patient, PFY05**

versus 59% for women), but generated more hospital costs (52% for men versus 48% for women) (see Figures 6A and 6B). This difference reflects a variation in utilization patterns: men are more likely than women to receive inpatient hospital care, which accounts for higher costs to the Pool, while women more typically receive outpatient services (see also Figures 10A and 10B).

### ***Utilization Patterns by Age***

The Pool primarily pays for services for non-elderly adults. Young adults ages 25 to 44 received the largest percentage of services (37%), while the entire non-elderly population ages 19 to 64 received 82% of the total service volume (see Figure 7A). The distribution of hospital costs by age shows this same pattern (see Figure 7B).

### ***Utilization Patterns by Income***

The majority of Pool users were low-income, single adults (see Figures 8A and 9A). Three-quarters (75%) of services billed to the Pool were for individuals with incomes less than 200% FPL, who were thereby eligible for full uncompensated care. Interestingly, Pool users with no

income accounted for only 27% of service volume, but represented 37% of allowable hospital uncompensated care costs (see Figures 8A and 8B); as a group, they were more costly than other Pool users. This same pattern was also observed in PFY04.

In contrast, the group of Pool users with family incomes between 101% and 200% FPL was less costly and accounted for 33% of claims, but for only 24% of costs. ERBD claims (for which there are no income data) were also relatively costly, accounting for 11% of service volume, but 14% of costs.

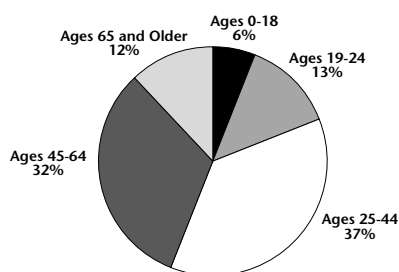
### ***Utilization Patterns by Family Size***

Over two-thirds of service volume and costs (70%; 71% respectively) to the Pool were for one- or two- person families. Fifty-four percent of all services were for single, childless adults, and another 16% were for two-person families comprised of two adults, or an adult and child (see Figures 9A and 9B).

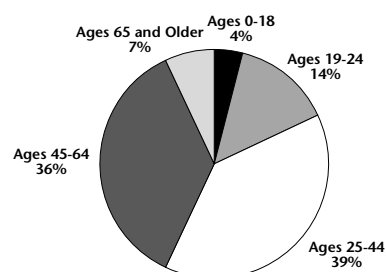
This annual report uses an integrated matching algorithm for data on family income and family size. This methodology matches data from uncompensated care claims to information on the application

**Figures 7A and 7B: Age of Patient**

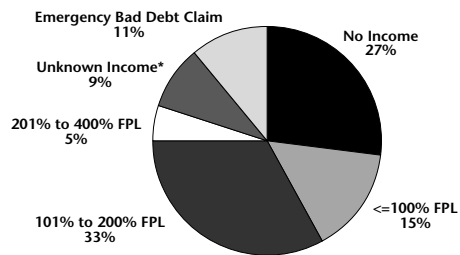
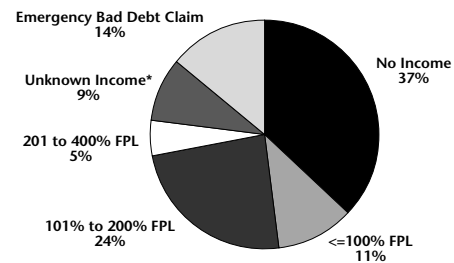
**Percent of Total Hospital Service Volume  
by Age of Patient, PFY05**



**Percent of Total Hospital Costs  
by Age of Patient, PFY05**





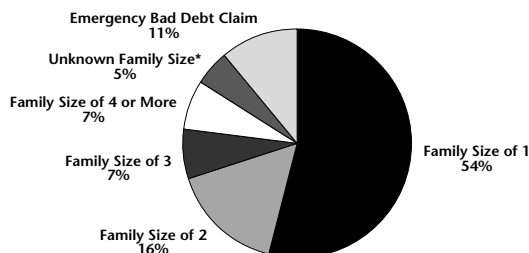
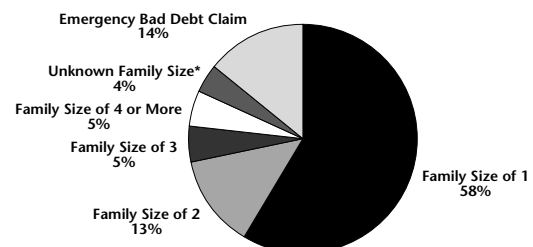
**Figures 8A and 8B: Reported Family Income****Percent of Total Hospital Service Volume  
by Family Income, PFY05****Percent of Total Hospital Costs  
by Family Income, PFY05**

\* A small percentage of uncompensated care claims could not be matched to a corresponding application, so information on family income is unavailable for these claims.

submitted to DHCFP, or to the application submitted to MassHealth. In the quarterly reports for PFY05, matching was available only against the DHCFP uncompensated care applications, resulting in a large number of unmatched claims. This new algorithm allows more accurate analyses of the family income and family size of all Pool users.

**Utilization Patterns of the Pool  
Population: Services Billed to the Pool**

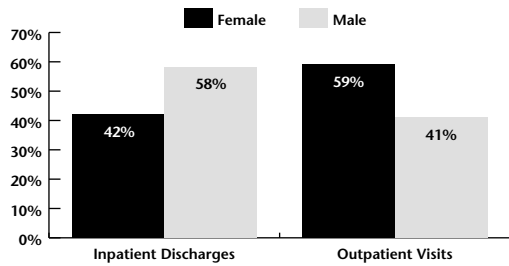
Except where noted, the utilization patterns of the Uncompensated Care Pool population for PFY05 remained unchanged from patterns observed in PFY04.

**Figures 9A and 9B: Patient Family Size****Percent of Total Hospital Service Volume  
by Patient Family Size, PFY05****Percent of Total Hospital Costs  
by Patient Family Size, PFY05**

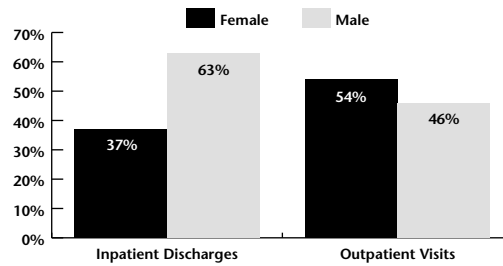
\* A small percentage of uncompensated care claims could not be matched to a corresponding application, so information on family size is unavailable for these claims.

## Figures 10A and 10B: Claim Type and Gender

**Percent of Discharges and Visits  
by Claim Type and Patient Gender, PFY05**



**Percent of Costs to the Pool  
by Claim Type and Patient Gender, PFY05**



### *Hospital Utilization by Gender*

Similar to patterns observed in previous years, utilization of inpatient and outpatient services differed dramatically for men and women during PFY05. Fifty-eight percent (58%) of all inpatient services were for men, while 59% of outpatient services (including care in outpatient clinics and hospital-licensed CHCs) were for women (see Figure 10A).

The inpatient care for men accounted for 63% of inpatient costs billed to the Pool, or approximately \$154.7 million, while

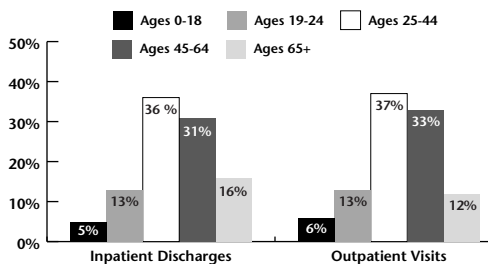
inpatient care for women accounted for 37% of inpatient costs, approximately \$90.9 million. In contrast, outpatient care for women accounted for over half (54%) of outpatient costs, approximately \$246.3 million, while outpatient care for men accounted for the remainder (46%), approximately \$209.8 million (see Figure 10B and Table 1).

### *Hospital Utilization by Age*

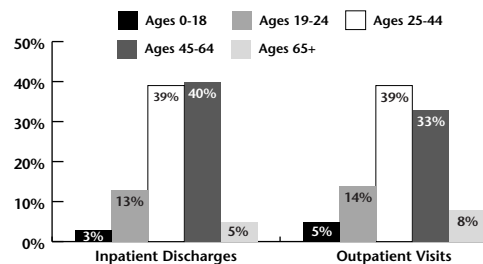
Pool users ages 25 to 44 received the most care of any age group in both hospital inpatient and outpatient settings, and gen-

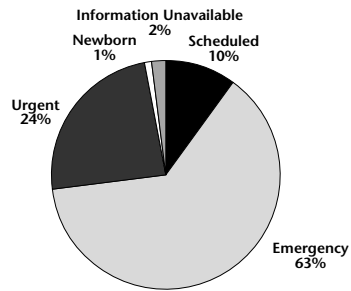
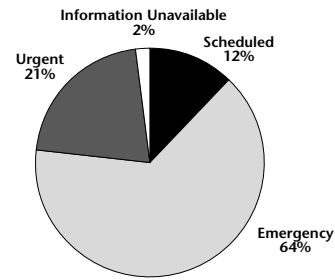
## Figures 11A and 11B: Claim Type and Patient Age

**Percent of Discharges and Visits  
by Claim Type and Patient Age, PFY05**



**Percent of Costs to the Pool  
by Claim Type and Patient Age, PFY05**



**Figures 12A and 12B: Admission Type****Percent of Inpatient Discharges  
by Admission Type, PFY05****Percent of Costs to the Pool  
by Inpatient Admission Type, PFY05**

erated the highest percentage of costs. However, the inpatient care for Pool users ages 45 to 64 was disproportionately expensive: services for this group accounted for 31% of inpatient discharges, but 40% of inpatient costs (see Figures 11A and 11B).

#### *Type of Admission*

Eighty-seven percent of inpatient hospital services were for emergency or urgent care; slightly less than two-thirds (63%) of these services were for emergency care, and

almost one quarter (24%) were for urgent care. An additional 10% were for scheduled procedures (see Figures 12A and 12B).

#### *Top Reasons for Inpatient Discharges*

In PFY05, the two most common diagnoses for inpatient care were circulatory disorders and digestive disorders: 25% of services and 26% of costs were attributable to these two MDCs (see Table 2). Inpatient discharges for mental health and substance abuse related disorders continued to be

**Table 2: Top Inpatient Major Diagnostic Categories for Uncompensated Care Patients by Percent of Total Discharges and Costs to the Pool, PFY05**

MDC	Percent of Total Inpatient Discharges	Percent of Total Inpatient Costs
Circulatory Diseases and Disorders	14%	16%
Digestive Diseases and Disorders	11%	10%
Mental Diseases & Disorders	10%	11%
Respiratory Diseases and Disorders	9%	8%
Alcohol/Drug Use & Induced Organic Mental Disorders	9%	6%
Nervous System Diseases and Disorders	6%	9%
Musculoskeletal Diseases and Disorders	6%	8%
Hepatobiliary Diseases and Disorders	5%	6%
Pregnancy, Childbirth, and the Puerperium	3%	2%
Kidney and Urinary Tract Diseases and Disorders	3%	3%
<b>Total for Top MDCs</b>	<b>76%</b>	<b>79%</b>

**Table 3: Outpatient Ambulatory Patient Groups (APGs) for Uncompensated Care Patients by Percent of Total Visits and Costs, PFY05**

APG	Percent of Total Visits	Percent of Total Costs
Pharmacy	23%	14%
Pulmonary Tests	4%	9%
Simple Gastrointestinal Diseases	2%	3%
Individual Comprehensive Psychotherapy	3%	1%
Counselling or Individual Brief Psychotherapy	2%	2%
Simple Musculoskeletal Diseases, except Back Disorders	2%	1%
Physical Therapy	2%	1%
Upper Respiratory Infections, Ear, Nose and Throat Infections	2%	1%
Skin Diseases	2%	1%
Hypertension	2%	1%
<b>Total for Top APGs</b>	<b>44%</b>	<b>34%</b>

prevalent within the Pool user population; however, these discharges represent a smaller proportion of total discharges and inpatient costs than in PFY04. In PFY04, mental health and substance abuse discharges were 23% of the total inpatient volume compared to 19% in PFY05. As a percentage of total inpatient costs, mental health and substance abuse costs declined from 21% of the total in PFY04 to 17% in PFY05.

#### ***Top Reasons for Outpatient Visits***

Outpatient pharmacy services represented the largest proportion of outpatient volume (23%), and generated 14% of out-

patient costs in PFY05 (see Table 3). These were bills for outpatient pharmacy services only; when pharmacy services occurred along with other outpatient services, the bill was grouped under the primary service provided.

#### ***Average Cost per Inpatient Discharge and Outpatient Visit<sup>3</sup>***

The average costs for inpatient discharges and outpatient visits increased by about 12% between PFY04 and PFY05. In PFY05, the average inpatient cost increased 10% to \$5,658 per discharge; the average cost per hospital outpatient visit increased 13% to \$275 per visit (see Table 4).

**Table 4: Average Charge per Inpatient Admission and Outpatient Visit, PFY05 including Comparison Cost Data from PFY04**

	Number PFY05	Hospital Costs to the Pool PFY05	Average Cost PFY05	Average Cost PFY04
Inpatient Discharges	43,416	\$245,639,386	\$5,658	\$5,141
Outpatient Visits	1,661,316	\$456,187,432	\$275	\$242
<b>Total Inpatient Discharges/ Outpatient Visits</b>	<b>1,704,732</b>	<b>\$701,826,818</b>	<b>\$412</b>	<b>\$368</b>

***High-Cost Users of the Pool***

One component of the Division's ongoing analysis of UCP utilization is to focus on high-cost Pool users. In PFY05, the costliest 1% of Pool users (4,515 users) generated over \$162 million in uncompensated care costs. Inpatient services for this 1% of users accounted for 51% of all PFY05 inpatient costs to the Pool. The majority (72%) of high-cost users' costs were spent on inpatient services, while the remaining 28% of costs were payments for outpatient services. Clinically, the 4,515 high-cost users had 7,060 hospital discharges in PFY05; representing 17% of all PFY05 inpatient UCP discharges. High-cost users had longer lengths of stay, received more significant procedures, and had more complex diagnoses (cardiac, oncology) than other UCP users.

The Division has initiated a demonstration project to explore whether some high-cost UCP users may be eligible for private insurance (see page 28).

**Data Notes**

Data used in this analysis were drawn from the following sources:

***Monthly Reports from Hospitals and CHCs***

Each month, hospitals and CHCs report their uncompensated care charges to the Division. Hospitals use the UC (uncompensated care) Form and CHCs use the CHC payment form. The UC Form is an aggregation of monthly hospital charges; the CHC payment form details monthly visit activity for CHCs as well as certain charge activity. The UC Forms are matched to each hospital's claims in the Division of Health Care Finance and Policy claims database.

***Pool Claims Database***

Hospitals and CHCs began electronic submission of Pool claims to the Division

in March 2001. During PFY03, the Division began to withhold payments from hospitals with incomplete data. As a result, compliance with data submission requirements has improved dramatically. Although variability exists among providers, Pool charges reported in the claims database equal approximately 90% of the charges reported by hospitals on the monthly UC forms they submit to the Division of Health Care Finance and Policy.

***Pool Applications Database***

Hospitals and CHCs began to submit electronic uncompensated care application forms to the Division in October 2000. The application contains data as reported by the applicant. Documentation of income and residency is required; hospitals and CHCs review and maintain the documentation.

Beginning in October of 2004, applications submitted through MassHealth were also screened for UCP eligibility, if no MassHealth eligibility existed. The eligibility data for individuals determined to be eligible for UCP or MassHealth after October 1, 2004 has been integrated into the UCP applications database to create a comprehensive dataset of demographic and eligibility information for all individuals with UCP eligibility.

***Matched Pool Applications and Claims Database***

To the extent possible, the Division matches uncompensated care claims to the corresponding uncompensated care application. Matching is based on the applicant's social security number or tax identification number when available. Additional matching uses an algorithm based on other available data such as phonetic last name, phonetic first name, date of birth, provider, etc. Since there are no applications associated with emergency bad debt (ERBD) claims, ERBD claims data are excluded from the match.

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The Division's matching algorithm has recently been revised to incorporate data from UCP applications submitted through MassHealth. This change has resulted in an improved match rate; in PFY05, 94% of uncompensated care claims matched to either a DHCFP or a MassHealth application.

A certain small percentage of claims remains unmatched because of timing issues (e.g., applications submitted after an uncompensated care claim has been written off), or because of inconsistencies in personal identifiers that hinder matching.

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## Endnotes

1. The hospital cost analyses in this section of the report and in Table 4 use UC Form charge data to derive costs billed to the Pool (see Data Notes for an explanation of this data). Please note that UCP costs do not reflect payments to hospitals due to the UCP prospective payment system. Hospital payment data are included in the Financing section of this report. The CHC data in Figure 3B reflect actual payments to CHCs, based on their reported charges on the CHC payment form.
2. In this section of the report, hospital costs are derived from the UCP claims dataset. Hospitals report charges on each claim, and these charges are multiplied by each hospital's cost-to-charge ratio to determine hospital costs. These costs do not reflect UCP payments (see Data Notes for more information).
3. The hospital cost analyses in Table 4 use UC Form charge data to derive costs billed to the Pool (see Data Notes for an explanation of this data). Please note that UCP costs do not reflect payments to hospitals due to the UCP prospective payment system.

# Financing

## Sources of Funds

The Uncompensated Care Pool is primarily funded from three sources: an assessment on acute hospitals' private sector charges; a surcharge on payments made to hospitals and ambulatory surgical centers by HMOs, insurers, and individuals; and an annual appropriation from the Commonwealth's General Fund. In some years additional Pool funding has come from other

sources. Table 5 summarizes the sources and amounts of funding available to the Pool in PFY05. Detailed information about these funding sources follows.

### *Hospital Assessments*

The total amount paid by all hospitals into the Pool is established by the legislature. The FY05 state budget established a total hospital assessment of \$160.0 million. Each individual hospital's assessment is calculated by multiplying the hospital's private sector charges by the uniform percentage. The uniform percentage is calculated by dividing the total assessment (\$160.0 million) by the total private sector charges from all hospitals statewide, and is currently approximately 1.19% (see Table 8 for each hospital's annual Assessment liability to the Pool). Since each hospital's liability is based on its private sector charges, hospitals that

**Table 5: Uncompensated Care Pool Funding**

Statutory Funding	PFY05
Hospital Assessment	\$160,000,000
Surcharge Collections	\$160,000,000
General Fund Contribution	\$210,000,000
<b>Other Funds</b>	
General Fund Transfer	\$75,000,000
General Fund Transfer, Supplemental Budget (§. 154, Ch. 352 Acts of 2004)	\$12,000,000
Medical Assistance Transfer Account	\$7,200,000
Portion of Surplus Expended from PFY98, PFY99 Settlements	\$12,000,000
Transfer from Essential Account	\$75,000,000
<b>Total Funds Available for Uncompensated Care</b>	<b>\$711,200,000</b>

treat more private patients make larger payments to the Pool.

### ***Surcharge Collections***

The total amount to be collected via the surcharge is also established by the Massachusetts legislature. The Division of Health Care Finance and Policy sets the surcharge percentage at a level to produce the total amount specified by the legislature. For PFY05, that amount equals \$160.0 million. If the Division collects more than \$160.0 million in one year, the Division reduces the surcharge percentage in subsequent years. The surcharge percentage was, 3.25% for PFY04, and 2.90% in PFY05.

Over 1,300 registered surcharge payers are currently making and reporting monthly payments to the Pool. Table 6 below lists the top surcharge payers and their contributions. Both providers and payers file reports with the Division of Health Care Finance and Policy that are analyzed to ensure that surcharge payers are paying appropriate surcharge amounts. For example, hospitals and

ambulatory surgical centers report possibly unregistered payers so that the Division may initiate appropriate follow-up.

### ***General Fund***

Each year the Commonwealth also makes a General Fund contribution to the UCP. This amount is a portion of the federal matching funds (FFP) generated by the Pool. In PFY05 the total General Fund contribution was \$210 million and additional UCP funding sources totaled \$181.2 million.

### ***Additional Funding for Uncompensated Care***

Since state FY98, the Commonwealth has been able to access additional funding through a supplemental payment. Between FY98 and PFY03 these supplemental payments totaled \$70 million annually.

In PFY04 supplemental payments increased to a total of \$120 million, and in PFY05 they increased further to \$140 million. MassHealth pays these funds to Boston Medical Center (\$71.8 million) and

**Table 6: Surcharge Collections**

Surcharge Payer	Collections PFY05	Percent to Total PFY05
Blue Cross Blue Shield of Massachusetts	\$77,802,006	45%
Harvard Pilgrim Health Care	\$22,181,504	13%
Tufts HMO	\$12,723,955	7%
United Health Care	\$7,194,391	4%
Connecticut General Life	\$6,874,037	4%
Total Health Plan	\$5,736,795	3%
Unicare Life & Health	\$4,946,338	3%
Aetna	\$4,874,980	3%
Fallon Community Health Plan	\$3,608,963	2%
Health New England	\$2,681,116	2%
All others	\$24,792,481	14%
<b>Total</b>	<b>\$160,274,561</b>	<b>100%</b>

Note: Surcharge percentage in effect: 2.90%



Cambridge Health Alliance (\$68.2 million). Uncompensated care provided by these two hospitals is funded first from the supplemental payment and the remainder is charged to the Pool.

## Uses of Funds

Tables 7, 8, 9, and 10 provide information regarding the distribution of funds for uncompensated care to hospitals for inpatient services, to hospitals for outpatient services, to CHCs, and to the Pool demonstration projects as well as additional detail on payments made from the Pool.

### *Uncompensated Care Pool Hospital Payment Calculation: Charges*

The annual payment calculation is based on hospital charge data. Hospitals report to the Pool on the distribution of uncompensated care among the allowable categories: full uncompensated care, partial uncompensated care, medical hardship, and emergency bad debt. These data are reported for both inpatient and outpatient uncompensated care services. Partial uncompensated care and medical hardship together make up approximately 2.16% of the Pool, and are included in Table 7 within all Uncompensated Care categories.

### *PFY05 Uncompensated Care Pool Hospital Assessment and Payment Calculations*

As shown in Table 8, each hospital's annual assessment (column C) is based on its private sector charges (column A), which it reports to the Division. On a periodic basis, the Division calculates a uniform percentage sufficient to generate \$160.0 million in annual Pool funding. This percentage is currently 1.19% (column B).

Prior to PFY04 each hospital was paid for the uncompensated care it provided based on reasonable costs and the availability of funding. In PFY04 a new prospective payment system was implemented, such

that the final payment amount for each hospital is calculated and fixed prior to the start of the new Pool year.

Similar to the method employed in PFY04, the prospective payments for PFY05 were calculated using Total UC and ERBD Charges (column D) derived from hospitals' Uncompensated Care Reports (May through September PFY03, October through April PFY04). Each base period was adjusted by a growth factor as described below.

Hospitals PFY03 May through September costs were adjusted by 14% then added to PFY04 October through April costs to project PFY04 costs. Projected PFY04 costs were then increased by 8% to project PFY05 charges.

The Division adjusts the uncompensated care charges using the ratio of each hospital's reasonable costs to charges (column E), calculated by the Division based on each hospital's charges over costs and its efficiency relative to other hospitals. The result of this adjustment is the hospitals' Allowable Uncompensated Care Costs (column F) in Table 8.

Net Adjusted Allowable Uncompensated Care Costs (column G) are derived by subtracting out supplemental payments made directly to Boston Medical Center (\$71,800,000) and Cambridge Health Alliance (\$68,200,000) as offsets to uncompensated care. Net Adjusted Allowable Uncompensated Care Costs also includes, pursuant to 114.6 CMR 11.07 (1) (b) 2.b.1, a free standing pediatric hospital payment to Children's' Hospital as an add-on (\$5,792,753).

The Prospective Payment Amount (column H) is calculated for each hospital by applying the mandated payment percentages to protected hospitals, 85% for Boston Medical Center and Cambridge Health Alliance, 88% for the other hospitals in bold type, and the remaining funding to all other hospitals. The Gross Shortfall/ (Surplus) (column I) in Table 8 is the

*continued on page 26...*

**Table 7: Uncompensated Care Charges for PFY05**

Hospital	Inpatient Emergency Bad Debt	+	Inpatient Uncompensated Care	=	Total Inpatient Uncompensated Care	Outpatient Emergency + Bad Debt
Anna Jaques Hospital	288,223		1,682,436		1,970,659	1,142,605
Athol Memorial Hospital	22,135		395,338		417,473	411,989
Baystate Medical Center	1,082,416		17,929,516		19,011,932	4,012,101
Berkshire/Hillcrest	532,509		5,800,102		6,332,611	1,679,456
Beth Israel Deaconess Med Ctr	6,570,230		22,279,439		28,849,669	4,001,967
Beth Israel Deaconess - Needham	176,777		124,677		301,454	214,138
Boston Medical Center	6,019,670		68,885,570		74,905,240	14,821,730
Brigham & Women's Hospital	4,922,623		46,364,700		51,287,323	2,689,042
Brockton Hospital	1,371,052		6,409,269		7,780,321	5,684,976
Cambridge/Somerville Hospital	3,644,543		43,060,181		46,704,724	11,479,131
Cape Cod Hospital	1,686,865		6,274,861		7,961,726	3,521,123
Caritas Norwood	480,976		2,737,760		3,218,736	1,577,379
Carney Hospital	672,318		3,330,555		4,002,873	1,776,271
Children's Hospital	1,388,119		5,391,011		6,779,130	1,659,091
Clinton Hospital	68,986		1,066,330		1,135,316	456,217
Cooley Dickinson Hospital	135,537		2,532,726		2,668,263	597,202
Dana-Farber Cancer Institute	-		657,703		657,703	-
Emerson Hospital	194,448		1,530,022		1,724,470	291,690
Essent Health / Merrimac Valley	243,321		964,960		1,208,281	1,381,819
Fairview Hospital	11,790		348,497		360,287	269,202
Falmouth Hospital	622,099		1,068,874		1,690,973	1,342,024
Faulkner Hospital	933,188		3,558,995		4,492,183	1,761,107
Franklin Medical Center	192,284		1,916,098		2,108,382	714,591
Good Samaritan Medical Center	600,505		3,315,752		3,916,257	2,556,280
Hallmark Health	829,572		3,402,064		4,231,636	3,021,891
Harrington Memorial Hospital	168,145		859,567		1,027,712	718,219
Health Alliance	522,386		2,180,093		2,702,479	1,509,823
Henry Heywood Memorial Hosp.	310,875		745,903		1,056,778	1,423,458
Holy Family Hospital	785,609		4,396,368		5,181,977	1,904,549
Holyoke Hospital	171,103		2,196,767		2,367,870	1,357,467
Hubbard Regional Hospital	144,410		134,937		279,347	1,156,022
Jordan Hospital	598,478		2,165,310		2,763,788	2,621,877
Kindred-Boston	-		43,968		43,968	-
Kindred-North Shore	-		-		-	-
Lahey Clinic Hospital, Inc.	1,918,060		4,004,263		5,922,323	1,450,372
Lawrence General Hospital	1,208,714		5,194,197		6,402,911	4,368,016
Lowell General Hospital	390,077		2,191,427		2,581,504	1,291,006
Marlborough Hospital	517,541		2,473,284		2,990,825	2,211,309
Martha's Vineyard Hospital	-		206,828		206,828	586,249
Mary Lane Hospital	15,744		229,260		245,004	677,227

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Outpatient Uncompensated Care	=	Total Outpatient Uncompensated Care	Net Total Emergency Bad Debt	Net Total Uncompensated Care	Total UC and ERBD
795,573		1,938,178	1,430,828	2,478,009	3,908,837
1,107,736		1,519,725	434,124	1,503,074	1,937,198
10,955,322		14,967,423	5,094,517	28,884,838	33,979,355
4,773,828		6,453,284	2,211,965	10,573,930	12,785,895
34,297,069		38,299,036	10,572,197	56,576,508	67,148,705
221,084		435,222	390,915	345,761	736,676
263,068,002		277,889,732	20,841,400	331,953,572	352,794,972
34,279,181		36,968,223	7,611,665	80,643,881	88,255,546
12,495,997		18,180,973	7,056,028	18,905,266	25,961,294
108,180,003		119,659,134	15,123,674	151,240,184	166,363,858
6,504,722		10,025,845	5,207,988	12,779,583	17,987,571
2,191,879		3,769,258	2,058,355	4,929,639	6,987,994
2,130,903		3,907,174	2,448,589	5,461,458	7,910,047
6,206,837		7,865,928	3,047,210	11,597,848	14,645,058
1,015,923		1,472,140	525,203	2,082,253	2,607,456
1,873,495		2,470,697	732,739	4,406,221	5,138,960
7,757,996		7,757,996	-	8,415,699	8,415,699
1,249,610		1,541,300	486,138	2,779,632	3,265,770
1,187,330		2,569,149	1,625,140	2,152,290	3,777,430
791,000		1,060,202	280,992	1,139,497	1,420,489
2,176,443		3,518,467	1,964,123	3,245,317	5,209,440
3,551,607		5,312,714	2,694,295	7,110,602	9,804,897
2,944,201		3,658,792	906,875	4,860,299	5,767,174
4,057,440		6,613,720	3,156,785	7,373,192	10,529,977
2,830,061		5,851,952	3,851,463	6,232,125	10,083,588
1,496,922		2,215,141	886,364	2,356,489	3,242,853
2,271,416		3,781,239	2,032,209	4,451,509	6,483,718
2,545,455		3,968,913	1,734,333	3,291,358	5,025,691
2,428,178		4,332,727	2,690,158	6,824,546	9,514,704
4,013,366		5,370,833	1,528,570	6,210,133	7,738,703
327,794		1,483,816	1,300,432	462,731	1,763,163
4,770,063		7,391,940	3,220,355	6,935,373	10,155,728
-		-	-	43,968	43,968
-		-	-	-	-
2,485,410		3,935,782	3,368,432	6,489,673	9,858,105
5,182,635		9,550,651	5,576,730	10,376,832	15,953,562
2,913,287		4,204,293	1,681,083	5,104,714	6,785,797
1,966,507		4,177,816	2,728,850	4,439,791	7,168,641
1,409,135		1,995,384	586,249	1,615,963	2,202,212
973,437		1,650,664	692,971	1,202,697	1,895,668

**Table 7: Uncompensated Care Charges for PFY05**

Hospital	Inpatient Emergency Bad Debt	+	Inpatient Uncompensated Care	=	Total Inpatient Uncompensated Care	Outpatient Emergency + Bad Debt
Mass. Eye & Ear Infirmary	336,245		586,749		922,994	1,117,895
Mass. General Hospital Corp.	6,372,098		72,247,438		78,619,536	7,083,257
Mercy Hospital	1,011,293		10,066,108		11,077,401	2,022,355
Metrowest Medical Center, Inc.	1,475,291		5,233,920		6,709,211	2,701,185
Milford-Whitinsville Hospital	454,832		2,242,386		2,697,218	1,914,400
Milton Hospital	184,897		308,170		493,067	703,248
Morton Hospital	321,242		1,710,784		2,032,026	2,300,260
Mount Auburn Hospital	492,472		3,953,199		4,445,571	1,028,279
Nantucket Cottage Hospital	30,220		79,806		110,026	505,335
Nashoba Valley	184,642		853,620		1,038,262	700,395
New England Baptist Hospital	-		217,730		217,730	-
New England Medical Center	631,920		16,761,419		17,393,339	(29,595)
Newton-Wellesley Hospital	1,339,824		2,978,412		4,318,236	2,333,157
Noble Hospital	236,512		1,008,241		1,244,753	834,833
North Adams Regional Hosp.	115,073		1,494,827		1,609,900	454,312
North Shore Medical Center	750,062		9,163,420		9,913,482	5,767,966
Northeast Hospital Corporation	19,692		5,611,676		5,631,368	1,792,368
Quincy Hospital	355,653		2,716,068		3,071,721	2,384,097
Saint Vincent Hospital	1,631,269		5,061,764		6,693,033	2,539,756
Saints Memorial	263,757		2,152,724		2,416,481	1,111,001
South Shore Hospital, Inc.	863,495		3,792,603		4,656,098	3,279,342
Southcoast	1,479,861		11,765,298		13,245,159	5,892,546
St. Anne's Hospital	838,009		2,827,163		3,665,172	1,918,753
St. Elizabeth's Hospital	646,882		7,944,828		8,591,710	1,156,374
Sturdy Memorial Hospital	342,610		1,153,174		1,495,784	1,797,255
UMass Memorial	3,262,684		46,629,855		49,892,539	6,983,078
Winchester Hospital	(13,540)		584,717		571,177	2,141,829
Wing Memorial Hospital	128,625		1,512,972		1,641,597	466,451
<b>Totals</b>	<b>63,196,948</b>		<b>498,708,679</b>		<b>561,905,627</b>	<b>149,238,748</b>

## Notes:

1. Data are based on uncompensated care charges reported by the hospitals from October 2004 through September 2005.
2. Kindred-North Shore reported no uncompensated charges for hospital FY05 (October 2004 through September 2005).
3. Bad debt is net of recoveries; therefore some facilities may have negative bad debt.
4. All data are unaudited and subject to change with future updates and calculations.

Outpatient Uncompensated Care	=	Total Outpatient Uncompensated Care	Net Total Emergency Bad Debt	Net Total Uncompensated Care	Total UC and ERBD
1,896,257		3,014,152	1,454,140	2,483,006	3,937,146
95,312,386		102,395,643	13,455,355	167,559,824	181,015,179
3,493,192		5,515,547	3,033,648	13,559,300	16,592,948
6,538,340		9,239,525	4,176,476	11,772,260	15,948,736
2,952,662		4,867,062	2,369,232	5,195,048	7,564,280
343,799		1,047,047	888,145	651,969	1,540,114
3,228,488		5,528,748	2,621,502	4,939,272	7,560,774
3,967,917		4,996,196	1,520,651	7,921,116	9,441,767
681,159		1,186,494	535,555	760,965	1,296,520
979,725		1,680,120	885,037	1,833,345	2,718,382
341,307		341,307	-	559,037	559,037
18,025,108		17,995,513	602,325	34,786,527	35,388,852
1,542,090		3,875,247	3,672,981	4,520,502	8,193,483
877,242		1,712,075	1,071,345	1,885,483	2,956,828
2,194,752		2,649,064	569,385	3,689,579	4,258,964
13,161,107		18,929,073	6,518,028	22,324,527	28,842,555
4,313,603		6,105,971	1,812,060	9,925,279	11,737,339
2,820,762		5,204,859	2,739,750	5,536,830	8,276,580
2,889,952		5,429,708	4,171,025	7,951,716	12,122,741
2,595,368		3,706,369	1,374,758	4,748,092	6,122,850
4,752,363		8,031,705	4,142,837	8,544,966	12,687,803
12,881,902		18,774,448	7,372,407	24,647,200	32,019,607
2,974,028		4,892,781	2,756,762	5,801,191	8,557,953
3,292,273		4,448,647	1,803,256	11,237,101	13,040,357
2,049,291		3,846,546	2,139,865	3,202,465	5,342,330
26,722,805		33,705,883	10,245,762	73,352,660	83,598,422
1,792,994		3,934,823	2,128,289	2,377,711	4,506,000
2,071,075		2,537,526	595,076	3,584,047	4,179,123
<b>774,118,794</b>		<b>923,357,542</b>	<b>212,435,596</b>	<b>1,272,827,473</b>	<b>1,485,263,069</b>

**Table 8: PFY05 Assessments and Payments**

Hospital	Private Sector Charges A	Hospital Uniform Assessment B	Annual Hospital Assessment C = A x B	Total UC and ERBD Charges D	Cost-to- Charge Ratio E
Anna Jaques Hospital	68,554,297	1.19%	817,938	3,908,837	46.56%
Athol Memorial Hospital	19,635,026	1.19%	234,270	1,937,198	31.11%
Baystate Medical Center	491,492,997	1.19%	5,864,120	33,979,355	46.95%
Berkshire/Hillcrest	131,067,662	1.19%	1,563,799	12,785,895	51.97%
Beth Israel Deaconess Med Ctr	861,518,462	1.19%	10,278,982	67,148,705	38.87%
Beth Israel Deaconess Med Ctr- Needham	35,555,515	1.19%	424,221	736,676	37.30%
Boston Medical Center	334,622,582	1.19%	3,992,462	352,794,972	57.17%
Brigham & Women's Hospital	1,168,726,755	1.19%	13,944,357	88,255,546	34.65%
Brockton Hospital	120,902,701	1.19%	1,442,519	25,961,294	45.67%
Cambridge/Somerville Hospital	101,004,367	1.19%	1,205,107	166,363,858	68.23%
Cape Cod Hospital	189,488,149	1.19%	2,260,828	17,987,571	53.45%
Caritas Norwood	131,851,375	1.19%	1,573,150	6,987,994	41.56%
Carney Hospital	45,114,067	1.19%	538,267	7,910,047	57.96%
Children's Hospital	702,217,823	1.19%	8,378,328	14,645,058	48.87%
Clinton Hospital	15,392,243	1.19%	183,649	2,607,456	35.43%
Cooley Dickinson Hospital	84,520,073	1.19%	1,008,429	5,138,960	55.77%
Dana-Farber Cancer Institute	327,226,406	1.19%	3,904,216	8,415,699	39.67%
Emerson Hospital	222,634,279	1.19%	2,656,303	3,265,770	32.37%
Essent Health / Merrimac Vall	42,537,625	1.19%	507,527	3,777,430	40.07%
Fairview Hospital	15,402,776	1.19%	183,774	1,420,489	61.26%
Falmouth Hospital	88,763,745	1.19%	1,059,061	5,209,440	51.03%
Faulkner Hospital	194,980,307	1.19%	2,326,356	9,804,897	28.96%
Franklin Medical Center	61,388,703	1.19%	732,443	5,767,174	41.31%
Good Samaritan Medical Center	86,068,162	1.19%	1,026,900	10,529,977	52.43%
Hallmark Health	197,575,179	1.19%	2,357,316	10,083,588	42.92%
Harrington Memorial Hospital	49,100,937	1.19%	585,835	3,242,853	60.66%
Health Alliance	94,307,724	1.19%	1,125,208	6,483,718	44.96%
Henry Heywood Memorial Hosp.	57,975,116	1.19%	691,715	5,025,691	34.14%
Holy Family Hospital	115,358,047	1.19%	1,376,364	9,514,704	45.16%
Holyoke Hospital	57,859,409	1.19%	690,334	7,738,703	49.77%
Hubbard Regional Hospital	22,823,735	1.19%	272,315	1,763,163	48.10%
Jordan Hospital	172,140,578	1.19%	2,053,850	10,155,728	37.02%
Kindred-Boston	6,146,707	1.19%	73,338	43,968	15.62%
Kindred-North Shore	3,628,494	1.19%	43,292	-	13.25%
Lahey Clinic Hospital, Inc.	417,197,414	1.19%	4,977,682	9,858,105	48.96%
Lawrence General Hospital	78,654,259	1.19%	938,443	15,953,562	44.76%
Lowell General Hospital	159,831,259	1.19%	1,906,985	6,785,797	37.38%
Marlborough Hospital	60,060,769	1.19%	716,599	7,168,641	32.46%
Martha's Vineyard Hospital	29,001,853	1.19%	346,028	2,202,212	47.99%
Mary Lane Hospital	21,715,815	1.19%	259,097	1,895,668	49.03%

Allowable Uncompensated Costs F = D x E	Net Adjstd Allowable Uncompensated Care Costs G	Prospective Payment Amount H	Gross Shortfall/ (Surplus) I = G - H	Net Annual Payments from (to) the Pool J = H - C
1,819,955	1,819,955	1,226,206	593,748	408,269
602,662	602,662	323,728	278,934	89,458
15,953,307	15,953,307	16,814,797	(861,490)	10,950,677
6,644,830	6,644,830	7,292,123	(647,293)	5,728,323
26,100,702	26,100,702	16,475,955	9,624,747	6,196,973
274,780	274,780	175,490	99,290	(248,732)
201,692,885	129,892,885	154,333,100	(24,440,215)	150,340,639
30,580,547	30,580,547	20,560,888	10,019,658	6,616,532
11,856,523	11,856,523	11,370,467	486,056	9,927,948
113,510,060	45,310,060	55,467,863	(10,157,803)	54,262,756
9,614,357	9,614,357	7,898,011	1,716,346	5,637,183
2,904,210	2,904,210	2,406,930	497,280	833,780
4,584,663	4,584,663	4,769,129	(184,466)	4,230,863
7,157,040	7,157,040	10,632,673	(3,475,634)	2,254,346
923,822	923,822	671,961	251,861	488,313
2,865,998	2,865,998	1,769,907	1,096,091	761,478
3,338,508	3,338,508	1,967,728	1,370,780	(1,936,488)
1,057,130	1,057,130	774,002	283,128	(1,882,301)
1,513,616	1,513,616	1,392,920	120,696	885,394
870,192	870,192	788,140	82,051	604,366
2,658,377	2,658,377	1,538,913	1,119,464	479,852
2,839,498	2,839,498	1,845,361	994,137	(480,996)
2,382,420	2,382,420	1,933,257	449,162	1,200,814
5,520,867	5,520,867	4,722,850	798,017	3,695,950
4,327,876	4,327,876	2,766,847	1,561,029	409,530
1,967,115	1,967,115	1,476,525	490,590	890,690
2,915,080	2,915,080	1,841,696	1,073,383	716,489
1,715,771	1,715,771	1,467,096	248,674	775,382
4,296,840	4,296,840	3,230,205	1,066,635	1,853,841
3,851,552	3,851,552	3,037,365	814,187	2,347,031
848,081	848,081	658,049	190,032	385,734
3,759,651	3,759,651	1,902,272	1,857,379	(151,578)
6,868	6,868	-	6,868	(73,338)
-	-	-	-	(43,292)
4,826,528	4,826,528	2,975,602	1,850,926	(2,002,079)
7,140,814	7,140,814	6,903,356	237,458	5,964,913
2,536,531	2,536,531	2,204,663	331,868	297,678
2,326,941	2,326,941	1,165,930	1,161,011	449,331
1,056,842	1,056,842	1,027,564	29,277	681,536
929,446	929,446	622,756	306,690	363,659

**Table 8: PFY05 Assessments and Payments**

Acute Care Hospitals	Private Sector Charges A	Hospital Uniform Assessment B	Annual Hospital Assessment C = A x B	Total UC and ERBD Charges D	Cost-to-Charge Ratio E
Mass. Eye & Ear Infirmary	114,298,624	1.19%	1,363,724	3,937,146	48.29%
Mass. General Hospital Corp.	1,392,705,325	1.19%	16,616,698	181,015,179	29.83%
Mercy Hospital	100,838,389	1.19%	1,203,127	16,592,948	42.66%
Metrowest Medical Center, Inc.	269,033,759	1.19%	3,209,906	15,948,736	30.72%
Milford-Whitinsville Hospital	162,985,547	1.19%	1,944,619	7,564,280	35.76%
Milton Hospital	46,251,075	1.19%	551,833	1,540,114	44.93%
Morton Hospital	86,679,571	1.19%	1,034,195	7,560,774	43.36%
Mount Auburn Hospital	184,090,422	1.19%	2,196,427	9,441,767	47.07%
Nantucket Cottage Hospital	15,708,622	1.19%	187,423	1,296,520	85.34%
Nashoba Valley	48,725,157	1.19%	581,351	2,718,382	40.17%
New England Baptist Hospital	171,077,030	1.19%	2,041,161	559,037	45.17%
New England Medical Center	477,900,006	1.19%	5,701,939	35,388,852	36.37%
Newton-Wellesley Hospital	343,627,440	1.19%	4,099,901	8,193,483	35.83%
Noble Hospital	42,594,586	1.19%	508,206	2,956,828	40.82%
North Adams Regional Hosp.	51,417,137	1.19%	613,470	4,258,964	35.14%
North Shore Medical Center	284,959,028	1.19%	3,399,914	28,842,555	47.24%
Northeast Hospital Corporation	195,120,081	1.19%	2,328,024	11,737,339	47.73%
Quincy Hospital	62,507,775	1.19%	745,795	8,276,580	48.45%
Saint Vincent Hospital	189,757,097	1.19%	2,264,037	12,122,741	38.30%
Saints Memorial	98,486,548	1.19%	1,175,066	6,122,850	39.58%
South Shore Hospital, Inc.	273,961,213	1.19%	3,268,696	12,687,803	48.15%
Southcoast	309,557,390	1.19%	3,693,403	32,019,607	46.51%
St. Anne's Hospital	71,620,738	1.19%	854,524	8,557,953	39.82%
St. Elizabeth's Hospital	174,115,258	1.19%	2,077,411	13,040,357	45.83%
Sturdy Memorial Hospital	91,836,645	1.19%	1,095,725	5,342,330	53.41%
UMass Memorial	815,136,348	1.19%	9,725,586	83,598,422	40.46%
Winchester Hospital	222,331,294	1.19%	2,652,688	4,506,000	45.76%
Wing Memorial Hospital	28,810,689	1.19%	343,747	4,179,123	63.85%
<b>Totals</b>	<b>13,410,176,186</b>	<b>1.19%</b>	<b>160,000,000</b>	<b>1,485,263,069</b>	<b>47.25%</b>

**Notes:**

1. In PFY04 a new prospective payment system was implemented, such that the final annual hospital payment amount for each hospital is calculated and fixed prior to the start of the new pool year.
2. Private Sector Charges (PSC) are derived from hospitals' UC Reports from June 2004 through May 2005 as included in the September PFY05 Calculation.
3. Total Uncompensated Care is derived from hospitals' UC Reports from October 2004 through September 2005.
4. Cost to Charge Ratios were prepared in July 2005 from the hospital FY04 final Cost to Charge Ratio using charge and cost data from the hospital FY04 HCF-403.
5. Net Adjusted Allowable Uncompensated Care Costs have been reduced by the supplemental payments to Boston Medical Center and Cambridge Health Alliance.
6. All hospital reported data are unaudited and subject to change with future updates and calculations.
7. Prospective Payment Amount includes a Special Distribution amount of \$12,000,000 from final settlement FY98 and FY99, in addition to the hospital FY05 prospective payment amount originally calculated.



Allowable Uncompensated Costs F = D x E	Net Adjstd Allowable Uncompensated Care Costs G	Prospective Payment Amount H	Gross Shortfall/ (Surplus) I = G - H	Net Annual Payments from (to) the Pool J = H - C
1,901,248	1,901,248	964,012	937,236	(399,712)
53,996,828	53,996,828	33,902,624	20,094,204	17,285,926
7,078,552	7,078,552	6,124,598	953,954	4,921,471
4,899,452	4,899,452	3,876,489	1,022,963	666,583
2,704,987	2,704,987	1,656,837	1,048,150	(287,783)
691,973	691,973	505,802	186,171	(46,030)
3,278,352	3,278,352	2,097,097	1,181,254	1,062,903
4,444,240	4,444,240	2,689,828	1,754,412	493,401
1,106,450	1,106,450	756,387	350,063	568,964
1,091,974	1,091,974	704,206	387,768	122,855
252,517	252,517	314,973	(62,456)	(1,726,188)
12,870,925	12,870,925	9,736,395	3,134,531	4,034,456
2,935,725	2,935,725	1,548,730	1,386,995	(2,551,170)
1,206,977	1,206,977	880,688	326,290	372,481
1,496,600	1,496,600	902,288	594,312	288,818
13,625,223	13,625,223	10,072,368	3,552,855	6,672,455
5,602,232	5,602,232	3,665,443	1,936,789	1,337,419
4,010,003	4,010,003	3,680,993	329,010	2,935,198
4,643,010	4,643,010	4,830,155	(187,146)	2,566,118
2,423,424	2,423,424	1,937,429	485,995	762,363
6,109,177	6,109,177	4,076,300	2,032,877	807,604
14,892,319	14,892,319	14,781,549	110,770	11,088,146
3,407,777	3,407,777	2,762,153	645,624	1,907,629
5,976,396	5,976,396	5,103,078	873,317	3,025,668
2,853,338	2,853,338	1,951,563	901,776	855,838
33,823,922	33,823,922	17,718,202	16,105,719	7,992,617
2,061,946	2,061,946	1,235,537	826,408	(1,417,150)
2,668,370	2,668,370	1,670,946	997,424	1,327,199
<b>701,826,818</b>	<b>561,826,818</b>	<b>498,579,000</b>	<b>63,247,818</b>	<b>338,579,000</b>

amount of Allowable Uncompensated Care Costs that remains unpaid for each hospital after UCP payments are applied. Eight hospitals reflect annual negative gross shortfall amounts (surpluses) when prospective UC payments are compared to the last year-end estimate of its UCP demand. The shortfall for Children's Hospital is a negative amount due to the special add-on payment.

Table 8 includes each hospital's Net Annual Payments to or from the Pool (column J), calculated by subtracting the hospital's assessment from its hospital payment. However, hospitals make and receive payments based on the gross amounts.

It is important to note that Table 8 incorporates updated uncompensated care charge data (column D) from October 2004 through September 2005 (PFY05), and updated cost to charge ratios (column E), which result in an updated projection of the shortfall amounts (column I).

#### ***PFY05 Projected and Actual Payment Percentages***

Table 9 summarizes the ratio of PFY05 Uncompensated Care payments to total Uncompensated Care costs. It shows the difference between the payment percentages calculated using projected costs and the percentages calculated using actual costs. The projected payment percentages are the PFY05 payment projections as specified by legislation, while the actual payment percentages reflect up-to-date PFY05 charge data and cost to charge ratios.

#### ***Community Health Center Payments for Uncompensated Care, PFY05***

CHCs report monthly allowable uncompensated care costs to the Division. Prior to PFY04, CHCs were always fully funded through the Uncompensated Care Trust Fund. In PFY04 a set amount was appropriated for payments to CHCs, this practice was continued in PFY05, and \$37.5 million was paid out to CHCs.

#### **Demonstration Projects**

In July 1997, the Massachusetts legislature enacted legislation (M.G.L. c.118G s.18) authorizing the Division to allocate up to \$10 million in Pool funds per fiscal year for demonstration projects designed to demonstrate alternative approaches to improve health care and reduce costs for the uninsured and underinsured. Each demonstration project was required to demonstrate the potential to save the Pool at least \$1 for every dollar it received in funding. None of the projects established cost-neutrality although two case management projects that targeted patients with congestive heart failure approached cost-neutrality. Chapter 47 also designated specific funds for three programs: the Ecu-Health Care project, the Hampshire Health Access project, and the Massachusetts Fishermen's Partnership, Inc. These three projects continued to receive Pool funding through PFY05.

**Table 9: PFY05 Uncompensated Care Payments as a Percentage of Total UC Costs**

Hospital Category	PFY05 Payment Percentages (basis of prospective payments)	PFY05 Payment Percentages (based on actual costs)
DSH (85%)	85.0%	111.0%
Community-DSH (88%)	88.0%	94.9%
All Other Hospitals	64.0%	67.1%

**Table 10: Community Health Center Payments for Uncompensated Care, PFY04 and PFY05**

Community Health Center	PFY04*	PFY05*	Difference	% Change
Boston Health Care for the Homeless Program	687,399	818,712	131,313	19.1%
Brockton Neighborhood Health Center	2,149,642	2,141,151	(8,491)	(0.4%)
Cape Cod Free Care Clinic-Falmouth	94,667	166,661	71,994	76.0%
Caring Health Center	616,344	776,833	160,489	26.0%
Children's Health Program	205,960	209,524	3,564	1.7%
Community Health Center of Franklin County	517,630	548,942	31,312	6.0%
Community Health Connections	1,034,322	1,337,263	302,941	29.3%
Dimock Community Health Center	465,274	513,379	48,105	10.3%
Family Health and Social Service Center	1,792,021	2,366,691	574,670	32.1%
Fenway Community Health Center	169,393	193,558	24,165	14.3%
Geiger-Gibson Community Health Center	843,848	825,628	(18,220)	(2.2%)
Great Brook Valley Health Center	7,687,829	6,459,884	(1,227,945)	(16.0%)
Greater Lawrence Family Health Center	1,846,340	1,220,180	(626,160)	(33.9%)
Greater New Bedford Community Health Center	1,671,635	1,966,645	295,010	17.6%
Harvard Street Neighborhood Health Center	654,759	673,377	18,618	2.8%
Health First Family Care Center	362,782	316,504	(46,278)	(12.8%)
Hilltown Community Health Center	349,518	363,126	13,608	3.9%
Holyoke Health Center, Inc.	977,894	1,144,256	166,362	17.0%
Island Health Care, Inc.	8,496	110,445	101,949	1,200.0%
Joseph M. Smith Community Health Center	1,738,160	1,884,571	146,411	8.4%
Lowell Community Health Center	627,429	471,201	(156,228)	(24.9%)
Lynn Community Health Center	3,575,532	4,032,592	457,060	12.8%
Manet Community Health Center	606,530	514,457	(92,073)	(15.2%)
Mattapan Community Health Center	661,024	439,180	(221,844)	(33.6%)
Mid-Upper Cape Community Health Center	286,394	467,495	181,101	63.2%
Neponset Health Center	600,211	631,921	31,710	5.3%
North End Community Health Center	185,896	218,249	32,353	17.4%
North Shore Community Health Center	471,314	701,657	230,343	48.9%
O'Neil Health Clinic, Inc. / Duffy Health Center	208,957	293,877	84,920	40.6%
Outer Cape Health Services, Inc.	406,593	318,497	(88,096)	(21.7%)
Roxbury Comprehensive Community Health Center	843,159	646,312	(196,847)	(23.3%)
Sidney Borum Jr. Health Center	66,749	61,800	(4,949)	(7.4%)
South Cove Community Health Center	1,951,040	2,324,280	373,240	19.1%
South End Community Health Center	573,352	490,320	(83,032)	(14.5%)
Stanley Street Treatment and Resources	288,622	357,623	69,001	23.9%
Upham's Corner Health Center	621,138	615,631	(5,507)	(0.9%)
Whittier Street Neighborhood Health Center	1,029,442	910,580	(118,862)	(11.5%)
<b>Total</b>	<b>36,877,295**</b>	<b>37,533,002</b>	<b>655,707</b>	<b>1.8%</b>

\* Based on actual data from 12 months (October 2003 through September 2004 for PFY04, and October 2004 through September 2005 for PFY05).

\*\* \$6,500,000 of PFY04 payments for low income patients was funded directly from Health Care Quality Improvement Fund.

**Table 11: PFY05 Pool Payments to Demonstration Projects**

	PFY97-PFY03	PFY04	PFY05	Total PFY97-PFY05
<b>Legislative Contracts</b>				
Ecu-Health Care, Inc.	\$280,000	\$40,000	\$40,000	\$360,000
Hampshire Health Access	\$280,000	\$40,000	\$40,000	\$360,000
Fishing Partnership Health Plan	\$15,000,000	\$3,000,000	\$3,000,000	\$21,000,000
Disease Management Program			\$103,752*	\$103,752
Inspector General Audit of the Pool			\$1,164,699	\$1,164,699
<b>Total:</b>	<b>\$15,560,000</b>	<b>\$3,080,000</b>	<b>\$4,348,451</b>	<b>\$22,988,451</b>

\*Funds extended into PFY06

#### ***Ecu-Health Care, Inc. and Hampshire Health Access***

The Division provides \$40,000 in Pool funds annually to each of the Ecu-Health Care projects in North Adams and to the Hampshire Health Access project in Northampton. These programs help link local residents to affordable and accessible health care by assessing their eligibility for state programs such as MassHealth and the Children's Medical Security Plan (CMSP). If applicants are not eligible for a state program, they are referred to local physicians who have agreed to treat patients at a reduced or no cost. In the state FY03 budget the legislature extended these projects through FY07.

#### ***The Massachusetts Fishermen's Partnership, Inc.***

The Fishing Partnership Health Plan (FPHP) offers fishermen and their families the opportunity to purchase health insurance at a reduced rate, made possible through subsidized premiums provided by the UCP. The FPHP is a freestanding trust fund that operates separately from the two primary sponsoring organizations: Caritas Christi Health Care System and the Mas-

sachusetts Fishermen's Partnership, Inc. In FY02 the state legislature allocated increased funding from \$2 million to \$3 million a year effective FY03 through FY07.

The FPHP contracts with Tufts Health Plan to offer fishermen and their families a comprehensive benefit package that includes access to Tufts' network of providers, mental health services, and pharmacy coverage. All fishermen, regardless of health status or current insurance coverage, may enroll in the plan. FPHP offers four tiers of membership depending on the income of the fishermen.

Almost 2,100 fishermen and their family members are currently enrolled. The FPHP did not meet cost-neutrality in either of two methodologies used by the Division to evaluate the program in 2002.

An updated analysis found that the FPHP is unlikely to become cost neutral.

#### ***Disease Management Program: Insurance Investigation of High-Cost Users***

In PFY05, the Division received funding for a new demonstration project to investigate the feasibility of a disease management program for UCP users. UCP data showed a significant concentration of costs

*continued on page 31...*

**Table 12: Uncompensated Care: Sources and Uses of Funds (in \$ millions)**

<b>Uncompensated Care Trust Fund (UCTF)</b>	<b>PFY04</b>	<b>PFY05</b>
<b>Budgeted Revenue Sources</b>		
Hospital Assessment	157.5	160.0
Surcharge Payers	157.5	160.0
General Fund Contribution	140.0	210.0
<b>Other Funding Sources</b>		
General Fund Transfer, Supplemental Budget (\$. 154, Ch. 352 Acts of 2004)		12.0
General Fund Transfer	35.0	75.0
Surplus from PFY98, PFY99*	6.7	12.0
Prior Fiscal Year UCP balance	28.0	
Medical Assistance Transfer Account**		7.2
Transfer of FFP pursuant to the Jobs & Growth Relief Rec Act of 2003	55.0	
Supplemental Budget Appropriation to CHCs	3.0	
Transfer from account # 4000-0896 (Essential)		75.0
<b>Total Sources</b>	<b>582.7</b>	<b>711.2</b>
<b>Uses of Funds</b>		
<b>UCTF Pool Uses of Funds</b>		
Hospitals	(386.7)	(498.6)
Community Health Centers	(31.0)	(39.8)
Demonstration Projects (Historic Pool)	(3.1)	(3.1)
Demonstration Project: Disease Management	0.0	(4.9)
Pool Audit Unit: Transfer to Inspector General	0.0	(4.9)
Administration/Data Collection	(2.0)	0.0
MassHealth Essential	(160.0)	(160.0)
<b>Total Uses</b>	<b>(582.7)</b>	<b>(711.2)</b>
<b>Uncompensated Care Pool: Financial Summary</b>	<b>PFY04</b>	<b>PFY05</b>
<b>Hospitals</b>		
Hospital Payments	(386.7)	(498.6)
Offsets to UCP	(120.0)	(140.0)
Net Allowable UCP Costs***	(684.9)	(701.8)
<b>Hospital Surplus/(Shortfall)</b>	<b>(178.2)</b>	<b>(63.2)</b>
<b>Community Health Centers****</b>		
Community Health Center Funding	(31.0)	(39.8)
Net Allowable UCP Costs	(30.4)	(37.5)
<b>CHC Surplus/(Shortfall)</b>	<b>0.6</b>	<b>2.3</b>
<b>UCP Surplus/(Shortfall)</b>	<b>(177.6)</b>	<b>(60.9)</b>

Note: Totals may not sum due to rounding.

\* Surpluses from the settlements of PFY98 and PFY99 totaling \$18.7M were paid out in PFY04 and PFY05.

\*\* In PFY05 a small portion of funds were transferred from interest to offset a reduction in the amount received from the Medical Assistance Transfer Account.

\*\*\* In PFY04 Net Allowable UCP Costs are based on actual PFY04 complete data using PFY04 CCRs. In PFY05 Net Allowable UCP Costs are based on 12 months of actual PFY05 data using PFY04 CCRs.

\*\*\*\*In PFY04 an additional \$6,500,000 of CHC funding was provided from the Health Care Quality Improvement Fund and is not included in these totals.

**Table 13: Uncompensated Care Pool Settlements**

Pool Fiscal Year	Settlement Status	Hospital Assessment Funding	Surcharge Funding	State Funding	Other State Funds	Other Supplemental Funds	MassHealth* Essential or Seniors' and Children's' Fund
2005	Sep '05 Calculation updated Feb 2006	160,000,000	160,000,000	210,000,000	169,085,421	a 12,114,579	160,000,000
2004	Special Distribution Calculation updated Feb 2006	157,500,000	157,500,000	140,000,000	99,500,000	b 34,742,774	160,000,000
2003	Sep '03 Calculation	170,000,000	100,000,000	45,000,000	30,000,000	c	-
2002	Sep Calculation	170,000,000	100,000,000	30,000,000	102,000,000	d	33,750,000
2001	Interim	215,000,000	100,000,000	30,000,000	25,000,000	e 1,100,000	44,250,000
2000	FINAL	215,000,000	100,000,000	30,000,000	15,000,000	f 24,000,000	46,250,000
1999	FINAL	215,000,000	100,000,000	30,000,000		g (13,895,992)	11,750,000
1998	FINAL	215,000,000	100,000,000	30,000,000		h (9,833,851)	
1997	FINAL	315,000,000		15,000,000		i 12,500,000	
1996	FINAL	315,000,000		15,000,000			
1995	FINAL	315,000,000		15,000,000			

Notes: All amounts are in dollars (\$).

- a \$169,085,421 = \$12,000,000 from Section 154 of Chapter 352 of the Acts of 2004, \$7,085,421 from Medical Assistance Transfer Account, \$75,000,000 from General Fund, and \$75,000,000 from MassHealth Essential Fund.  
\$12,114,579 = \$9,000,000 in surplus funds from PFY98 and PFY99 were added to the PFY05 hospital payments through a special distribution in June 2005, \$3,000,000 from installments made in July through September, and \$114,579 from residual funds to offset the reduction in Medical Assistance Transfer Account funds.
- b \$99,500,000 = \$35,000,000 from the General Fund pursuant to Section 619, \$55,000,000 from the Jobs & Growth Tax Relief Act pursuant to Section 618, \$6,500,000 for CHCs from the Health Care Quality Improvement Fund pursuant to Section 620, and a Supplemental Budget provided an additional \$3,000,000 for CHCs.  
\$34,742,774 = \$28,000,000 from prior years' funds, \$6,742,774 of surplus funds from PFY98 and PFY99 were added to the PFY04 hospital payments through a special distribution in June 2005.
- c \$30,000,000 = state FY03 statute provided Shortfall Relief from Tobacco Fund.
- d \$102,000,000 = state FY02 statute provided \$45,000,000 as relief to hospital assessment and an additional \$45,000,000 in Uncompensated Care Funding. A state FY03 statute provided an additional \$12,000,000 for Uncompensated Care Funding (Shortfall Relief).
- e \$25,000,000 = \$10,000,000 in state FY01 statutory relief and \$15,000,000 in state FY02 statutory relief.  
\$1,100,000 = Section 56 Compliance Liability Fund.
- f \$15,000,000 = state FY01 statutory budget relief.  
\$24,000,000 = \$9,000,000 from 1998 Surplus and \$15,000,000 in Section 56 Compliance Liability Fund.

Reserves and Expenses	Community Health Center Payments	Balance Payable to Hospitals	Allowable Hospital UC Costs	Hospital Surplus/ (Shortfall)	Percent of UC Costs Paid	Hospital Uniform Assessment
15,087,998	37,533,002	498,579,000	561,826,818	(63,247,818)	89%	1.19%
5,622,705	36,877,295	386,742,774	564,906,577	(178,163,803)	68%	1.24%
6,270,277	28,729,723	310,000,000	466,626,189	(156,626,189)	66%	1.53%
11,530,924	22,469,076	334,250,000	372,880,175	(38,630,175)	90%	1.74%
6,801,885	17,747,789	302,300,326	340,551,566	(38,251,240)	89%	2.37%
5,927,535	15,735,998	316,086,467	310,221,241	5,865,226	100%	2.68%
2,958,178	14,491,604	301,904,226	301,904,226	-	100%	3.17%
2,543,188	16,026,457	316,596,504	316,256,534	339,970	100%	3.52%
-	16,031,038	326,468,962	430,959,137	(104,490,175)	76%	5.74%
1,284,269	15,168,235	313,545,496	467,290,626	(153,743,130)	67%	6.00%
4,065,970	12,996,321	312,937,709	446,123,716	(133,186,007)	70%	6.54%

g (\$13,895,992) = (\$13,908,923) used toward \$18,742,774 for PFY04 and PFY05 special distributions and \$12,931 from the Section 56 Compliance Liability Fund.

h (\$9,833,851) = (\$9,000,000) transferred to PFY00 and (\$4,833,851) toward \$18,742,774 used for PFY04 and PFY05 special distributions, and \$4,000,000 from Section 56 Compliance Liability Fund.

i \$12,500,000 = Section 56 Compliance Liability Fund.

\* PFY99 through PFY02 = Seniors & Children's Fund and PFY04 = MassHealth Essential Funding.

among those with yearly costs in the top 1% of Pool users (see page 13 for more discussion of this data). This analysis led to a shift in the development of the demonstration project; the Division initiated a pilot project to determine whether UCP users may be eligible for insurance, coverage that may have been unknown or turned down by the ben-

eficiary. The Division has contracted with experienced insurance investigation staff, who will use demographic data derived through UCP patient interviews to explore other potential sources of coverage such as employers, former employers (through COBRA), spousal employment, or other governmental payers (such as the Veteran's

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Administration). This project is in progress at one Boston-area hospital.

### **Summary of Sources and Uses of Funds**

Table 12 provides a summary of the Sources and Uses of Pool funds in PFY04 and PFY05. The financial summary section contains up-to-date information on PFY05 hospital and CHC Pool expenditures, as well as any annual UCP shortfall.

### **Pool Settlements**

The Pool makes monthly payments to hospitals, and hospitals make monthly payments to the Pool on an estimated basis. Prior to PFY04, the Division of Health Care Finance and Policy calculated the payment amounts based on a rolling average of each hospital's most recently reported 12 months of uncompensated care and private sector charges, adjusted for industry trends.

As required by M.G.L. c.118G, §18(h), the Division calculates the final payment amounts to and from the Pool after all hospitals' final audited Pool year data are available. The final payments made based on this final calculation are referred to as the final settlement of the Pool fiscal year. At final settlement, a hospital pays the Pool or the Pool pays the hospital the difference between amounts that were paid previously and the actual amount that should have been paid, based on final data. Factors that would cause the final payment to differ from the initial estimated payment include: a change in the amount of uncompensated care provided by the particular hospital or by all hospitals statewide, a change in the hospital's mark-up of charges over costs, a change in the hospital's overall payer mix, audit adjustments, and a change in the total funding available for uncompensated care statewide.

Final settlements cannot be completed until final audited uncompensated care charges, private sector charges, total charges, and total patient care costs are available for all hospitals. It often takes several years to resolve all outstanding audit issues for all hospitals, and as a result final settlements are often delayed.

The Division conducts interim settlements in order to ensure that as much funding as possible is available for Pool payments. The Division conducts an interim settlement as soon as 12 full months of uncompensated care charges and private sector charges are available for the Pool fiscal year, as well as an updated cost to charge ratio. Conducting interim settlements helps prevent the need to transfer large unexpected dollar amounts upon final settlement.

Table 13 illustrates the history and status of Pool settlements for the Division. The table identifies all Pool funding sources for each year as well as Pool expenses for that year, including payments to hospitals, payments to CHCs, and payments for the MassHealth Essential program. Payments for the Division's demonstration programs are included in Reserves and Expenses, along with other expenses related to administering the Pool.

The shortfall amount is the amount by which allowable uncompensated care costs incurred by hospitals exceed the available Pool funds. No shortfall existed in PFY98, PFY99, or PFY00. However, projections for PFY01 through PFY05 indicate shortfalls. The percent of uncompensated care costs paid is the percent of hospitals' allowable uncompensated care costs that were paid by the Pool that year. The last column indicates the steadily decreasing percentage of the uniform assessment on hospitals' private sector charges, which generates each hospital's liability to the Pool (for additional information, please see the explanation of Table 8).



## **Pool Management**

### ***Audits***

The Division continues its audit activity. Compliance with the Division's regulations both ensures fairness and increases accountability among providers. Audits also enhance the Division's ability to complete final settlements on outstanding Pool years.

The Division selects providers for audit based upon providers' historical billings to the Pool, uncompensated care application submissions, and other reporting requirements. Field audit teams visit hospitals and collect samples of uncompensated care applications and patient records to ensure that they comply with the laws and regulations governing uncompensated care.

The Division's audit activities have had an educational focus, emphasizing a collaborative effort between the agency and providers to learn and implement the regulations. A goal of the audits has been to identify issues and correct them system-wide through training. The Division has also used audits to inform Pool policy development. The Division has made adjustments

to providers' payments from the Pool that will be implemented upon final settlement.

### ***PFY05 Pool Reform Audits***

As part of the PFY05 Pool reforms, the Acts of 2004 mandated that the Division conduct independent utilization and financial audits of the Uncompensated Care Pool. In PFY05 the Division contracted with two independent firms to conduct these audits.

The clinical utilization audit is designed to monitor the appropriateness of services paid for by the Pool, and to promote the delivery of care in the most appropriate setting. The audit is examining the effectiveness of the PFY05 Critical Access policy reform, which limits payments for primary care performed in hospital settings. The clinical audit is underway; audit staff have completed 7 of the 12 review cycles.

The financial audit of the Pool has as its primary goal the examination of the current Pool payment system. Audit staff are also investigating potential Third-Party Liability for people served by the UCP.

Audit findings will influence Pool policy development and highlight possible areas for reform within the UCP.

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# Production Notes

**T**he Division's *Uncompensated Care Pool PFY05 Annual Report* was researched and produced by the Division of Health Care Finance and Policy. The Division is solely responsible for its content and distribution.

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